

IRS News Release

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National Taxpayer Advocate Releases Report to Congress, Cites AMT as a Top Problem Facing Taxpayers

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WASHINGTON — National Taxpayer Advocate Nina E. Olson today released a report to Congress that identifies the Alternative Minimum Tax (AMT) and sole proprietor tax noncompliance as the top two problems faced by taxpayers.

In her third annual report to Congress as the National Taxpayer Advocate, Olson also sets forth strong arguments for protecting the confidentiality of tax return information and makes legislative recommendations for ways to enhance these protections.

“Although the AMT was originally enacted to prevent wealthy taxpayers from avoiding tax liability through the use of tax avoidance techniques, it now affects substantial numbers of middle-income taxpayers and will, absent a change of law, affect more than 30 million taxpayers by 2010,” Olson writes in the report.

By 2007, nearly 95 percent of AMT revenues will be attributable to personal and dependent exemptions, the standard deduction, state and local taxes, and miscellaneous itemized deductions. Olson recommends that Congress repeal the AMT or, alternatively, make changes to lessen the impact on middle-income taxpayers.

The annual report is required by law and contains three main sections: a list of the Most Serious Problems Encountered by Taxpayers, Key Legislative Recommendations, and a list of the Most Litigated Tax Issues. This year’s report focuses on the IRS’s need to maintain an active presence in enforcing the tax laws while balancing these initiatives with an equally vigorous protection of taxpayer rights.

Toward this end, the report reaffirms the importance of confidentiality to the tax system. “The promise that we will hold taxpayers’ highly personal information in confidence forms the basis of all tax administration. Every proposal to create an exception to that promise must be balanced against the potential impact it will have on taxpayers’ continued willingness to provide that information to the IRS,” Olson writes.

Olson also proposes a legislative solution to the second most serious problem – the over \$132 billion tax gap attributable to income not reported by self-employed persons (\$81 billion is attributable to independent contractor sole proprietors).

Because payments made to these taxpayers are often not reported to the IRS by payors and have no tax withheld, Olson recommends that Congress enact a withholding requirement on payments to certain categories of non-wage workers.

“Why would the National Taxpayer Advocate highlight a problem that requires a response involving enforcement initiatives?” Olson asks in the report. “The answer is simple – compliant taxpayers are impacted by the large tax gap attributable to sole proprietor taxpayers.”

The other top taxpayer problems include Earned Income Tax Credit (EITC) compliance strategy, the IRS Appeals implementation of the Collection Due Process program, and the administration of Individual Taxpayer Identification Numbers (ITINs). These issues, along with 15 others, are detailed in the report and contain a response from IRS offices describing actions being taken to address them.

The report makes several other legislative recommendations, including the oversight of tax return preparers. For the second year in a row, the National Taxpayer Advocate recommends that the IRS register, test and certify persons who prepare more than five tax returns for a fee. Olson also recommends enhanced penalties against preparers (including Electronic Return Originators) and stronger due diligence requirements for persons who prepare EITC returns for a fee.

The Taxpayer Advocate Service, an independent organization within the IRS, helps individuals solve ongoing tax problems with the IRS and recommends changes to mitigate taxpayer problems. The Taxpayer Advocate Service, with a workforce of more than 2,100 employees, is available to assist both individuals and businesses. TAS closed more than 205,000 cases during the past fiscal year. A taxpayer advocate is located in each state.

You may qualify for the assistance of a taxpayer advocate if:

- You are facing a significant hardship due to an action taken by IRS;
- Your case has gone through all established systems without being resolved;
- You are on the second attempt to resolve a problem; or
- You have not been contacted by the date promised.

Call toll free 1-877-777-4778 to request the assistance of a taxpayer advocate.

The Fiscal Year (FY) 2003 National Taxpayer Advocate’s Annual Report to Congress is available on the IRS Web site at www.irs.gov.